STANDARD & POOR'S PUBLIC FINANCE

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# Cal-Mortgage Insurance Program Rating Lowered to 'BBB' Based on State Downgrade

Credit Analysts: James Cortez, San Francisco (1) 415-371-5014; Martin D Arrick, New York (1) 212-438-7963

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SAN FRANCISCO (Standard & Poor's) July 24, 2003--Standard & Poor's said today that it lowered to 'BBB' from 'A' and removed from CreditWatch the rating on the the Cal-Mortgage Insurance Program based on the downgrade on the State of California's GO rating earlier today. The outlook is stable.

"The Cal-Mortgage Insurance Program downgrade is based solely on the state's rating and does not reflect any underlying credit concerns regarding Cal-Mortgage," said credit analyst James Cortez.

The Cal-Mortgage program, since its inception in 1968, has helped health care facilities in California gain access to the tax-exempt financing markets at borrowing costs comparable to those of the state. The bonds are guaranteed by the program's Health Facility Construction Loan Insurance Fund (HFCLIF), but the ultimate backing for the loans is the full faith and credit of the state. The HFCLIF is funded by a one-time fee, not in excess of 3% of the principal and interest payable over the life of the loan. As of May 31, 2003, the fund had a balance of approximately $181.3 million. The Cal-Mortgage program also requires a debt service reserve to be funded at closing for each enhanced debt issue. Total debt service reserve funds on all Cal-Mortgage programs totaled approximately $105.1 million as of May 31, 2003. These reserves, along with the HFCLIF, are the only financial resources available to make up payment deficiencies in the portfolio prior to any state involvement.

In the event of a default, the state can continue to make regularly scheduled debt service payments or issue debentures having a total face value of and bearing interest at the rate on the respective bonds they replace to the trustee for the benefit of the bond owners. Thus, the ultimate backing for this issue is the credit of California and, on that basis, the bonds are on par with the state's GO rating.

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